

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Establish  
Policies and Rules to Ensure Reliable, Long-Term  
Supplies of Natural Gas to California.

Rulemaking 04-01-025  
(Filed January 22, 2004)

**RULING OF THE ASSIGNED COMMISSIONERS SETTING A REVISED  
SCHEDULE FOR PHASE II**

Many parties attended and actively participated in a lengthy prehearing conference for Phase II of this proceeding on March 23, 2005. After reviewing the Prehearing Conference Statements and the transcript for the prehearing conference, and after consulting with the commissioners assigned to this proceeding, the following reflects the revised schedule for this proceeding:

Draft Pro Forma Operational Balancing Agreement Distributed	Was released April 1, 2005
Gas Quality Workshop Report Issued	Was Released April 4, 2005
Gas Quality Workshop Report Comments Due	April 25, 2005
Draft Pro Forma Operational Balancing Agreement Comments Due	May 2, 2005
Operational Balancing Agreement Workshop	May 11, 2005 10:00 a.m. (tentative)
Infrastructure Adequacy and Slack Capacity Guidelines Utility Testimony to be Served	May 20, 2005
Operational Balancing Agreement Workshop Report	June 8, 2005

Infrastructure Adequacy and Slack Capacity Guidelines ORA and Intervenor Testimony to be Served	June 22, 2005
Second Phase II Prehearing Conference	June 29, 2005 - 10:30 a.m., at the Commission Courtroom, State Office Building, 505 Van Ness Avenue, San Francisco, CA 94102
Infrastructure Adequacy and Slack Capacity Guidelines Hearings	July 11-15, 2005 at 10:00 a.m.
Opening and reply briefs	August 2005 (tentative)
Opening comments due on Phase II proposed decision	Within 20 days of the mailing date of the proposed decision
Reply comments due on Phase II proposed decision	Five days after opening comments are filed
Proposed decision adopted by the Commission	At least 30 days later

This revised schedule reflects two recently-occurring events (Southern California Gas Company's (SoCalGas) release of a revised *pro forma* Interconnection and Operational Balancing Agreement, and the Energy Division's release of a Gas Quality Workshop Report). It also reflects my intention, and that of the assigned commissioners, as to how we will proceed going forward. We will now address individually each of the prospective milestones, as well as other issues raised at the prehearing conference.

#### **Draft Pro Forma Operational Balancing Agreement Comments**

As stated in the Phase II Scoping Memo,<sup>1</sup> the intention of the assigned commissioners is to hold a workshop to discuss this issue. After a workshop, the Energy Division would issue a workshop report, followed by a round of

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<sup>1</sup> Assigned Commissioners' Ruling dated February 28, 2005.

comments and, potentially, evidentiary hearings. Now that SoCalGas has issued its revised draft *pro forma* agreement, interested parties should file comments on the revised draft agreement. Based on those comments, Energy Division will proceed to conduct a workshop, if it remains clear that a workshop is still required. If a workshop is necessary, the comments will help Energy Division to frame the issues to be addressed in that forum.

Energy Division asks that in commenting on the revised draft agreement, parties address the following questions:

1. Provide critique of SoCalGas' proposed agreement. What specific provisions do you agree with, and which specific provisions do you feel are not suitable or acceptable for your business? Why to you agree or disagree with specific provisions? What is your proposed solution or alternative?
2. For purposes of this discussion, what are the main types of up-entities that would be requesting interconnection with SoCalGas or SDG&E?
3. What do you think of the following categorization for the different types of interconnecting facilities -- (a) California producers, (b) liquefied natural gas suppliers, (c) interstate pipelines, and (d) international pipelines (e.g., at Otay Mesa)? How does liquefied natural gas arriving in Baja fit into these categories? Should California producers be required to enter into agreements with SoCalGas or SDG&E?
4. Is it possible/appropriate for one agreement to address all possible relationships with interconnecting entities?
5. Should there be there be one standard agreement for all of these categories, or only for certain of these categories, and not for others?

6. Should there be two or more standard agreements that would apply to some of these categories (e.g., one for California production, and one for all others)?
7. What is the basis for some parties' (e.g., Kern and Questar) concern about standardized agreements? Should agreements be flexible, or allow for the negotiation of certain terms?
8. Should SDG&E be required to offer an agreement? If so, why?

Consistent with the suggestion offered by the Office of Ratepayer Advocates (ORA) in its prehearing conference statement, these comments, as well as any comments on a workshop report, will not be governed by Rule 77.3 of the Commission's Rules of Practice and Procedure, which applies only to comments on a proposed decision.

#### **Gas Quality Workshop Report Comments**

These comments are due April 25, 2005, and should reflect the instructions provided in the Scoping Memo, at the prehearing conference, and in the cover letter accompanying the report. Consistent with the Scoping Memo, we will determine what additional steps may be necessary to resolve the gas quality question after reviewing the comments on the workshop report.

#### **Operational Balancing Agreement Workshop**

This ruling serves as notice that the Energy Division will conduct a workshop on this subject on May 11, 2005, at 10:00 a.m., at the Commission in San Francisco. We have labeled this date as "tentative" on the schedule, because Energy Division will cancel the workshop if it appears not to be necessary, after reviewing the comments that are due on May 2, 2005. Energy Division will notify parties by e-mail no later than May 6, 2005, if the workshop is cancelled.

There appears to be no need to discuss the need for such an agreement for Pacific Gas and Electric Company (PG&E) at this time.

**Infrastructure Adequacy and Slack Capacity  
Guidelines Utility Testimony**

The Commission will conduct evidentiary hearings on the adequacy of utility natural gas infrastructure, as reflected by the relationship between projected supply, facilities and demand, as well as reflected in the actual operation of the system. The Commission is interested in examining the adequacy of utility natural gas backbone/receipt point capacity, storage capacity, and local transmission capacity. In addition, the Commission is interested in examining how it should determine when capacity additions are necessary and whether ratepayers as a whole should pay for such capacity additions. As part of this inquiry, the Commission will consider proposed guidelines for slack capacity and delivery reliability. Utility testimony in this regard shall be distributed to all parties no later than May 20, 2005.

We note that PG&E included in its Phase II Comments and Proposals dated April 23, 2004, an initial assessment of its infrastructure adequacy, as well as a proposal for the establishment of slack capacity guidelines. PG&E may wish to supplement its showing as a result of comments at the prehearing conference and as a result of this ruling. At a minimum, PG&E should update the information in its assessment, which is now a year old, and provide any additional data necessary to support its conclusions. In addition, PG&E should resubmit its assessment and proposal in the form of prepared testimony with sponsoring witnesses.

On the other hand, SoCalGas and San Diego Gas & Electric Company (SDG&E) did not present an infrastructure adequacy assessment or slack

capacity guideline proposal in the companies' joint Phase II Proposals filed April 23, 2004. SoCalGas and SDG&E must now provide such an assessment, as well as a slack capacity guidelines proposal and a proposal for how the Commission should determine when capacity additions are necessary and whether ratepayers as a whole should pay for such capacity additions, in the form of prepared testimony with sponsoring witnesses.

As indicated in the Commission's March 23, 2005 prehearing conference, the Commission may need to consider these issues in coordination with SoCalGas' A.04-12-004.

#### **Infrastructure Adequacy and Slack Capacity Guidelines ORA and Intervenor Testimony**

The schedule provides approximately two months for ORA and intervenors to undertake discovery and prepare testimony assessing the adequacy of utility infrastructure and addressing the issue of slack capacity guidelines. We advise parties intending to prepare such testimony to begin discovery immediately and will expect the responding utilities to be cooperative and timely in providing requested information. ORA and intervenors shall distribute their testimony to all parties no later than June 22, 2005.

#### **Second Phase II Prehearing Conference and Evidentiary Hearings on Infrastructure Adequacy and Slack Capacity Guidelines**

A second Phase II prehearing conference, in San Francisco, on June 29, 2005, at 10:30 a.m., will be for the purpose of scheduling witnesses and dealing with other procedural matters prior to the hearings. The hearings are scheduled to occur July 11-15, 2005, beginning at 10:00 a.m.

#### **Other Issues Discussed at the Prehearing Conference**

##### **1. Emergency Reserves and Backstop Capacity**

The Commission will be examining infrastructure adequacy through the testimony and hearings discussed above. One of the issues that should be explored in that context is how to define adequacy. Our intention is not to constrain any party's efforts to advocate on behalf of what it considers to be the appropriate definition and to present evidence to support its position on the adequacy of existing infrastructure. In this context, and in light of the positions of most parties in this proceeding, it does not appear to be useful to expressly and separately consider proposals for emergency reserves and backstop capacity at this time.

## **2. Infrastructure Adequacy Working Group**

There appears to be general concurrence that it would be useful to establish an ongoing working group to monitor infrastructure adequacy, although parties disagreed as to the proper composition of the group. It is my understanding that an existing natural gas working group among state agencies will meet to consider the appropriate role and composition of a separate or expanded working group and will offer its proposal to the Commission. We ask the state agencies involved in the Natural Gas Working Group to report back to us by July 1, 2005.

## **3. Direct Connection of California Suppliers to Competitive Storage Facilities**

At the prehearing conference, PG&E stated its intention to negotiate with interested parties in an effort to resolve this issue, as well as sharing information about the sufficiency of backbone capacity to serve maximum potential storage withdrawals. The Assigned Administrative Law Judge encouraged PG&E to begin that process as soon as possible and we now ask the parties to report on the results of their efforts within 60 days of the date of this ruling. We will

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suspend consideration of further procedures related to the direct connection issue until after this 60-day period.



#### **4. At-Risk Ratemaking**

The Commission is considering issues related to the appropriate allocation of pipeline risk related to SoCalGas in A.04-12-004 (SoCalGas System Integration, Firm Access Rights and Off-System Deliveries). PG&E is operating under a formula approved in its current version of the Gas Accord, which is scheduled to expire in 2007. At that time, the ongoing risk allocation for PG&E will be considered again. There is no apparent benefit to examine this issue in this docket, as well.

#### **5. Consolidation with A.05-03-001 (PG&E's New Core Storage Cap)**

The Utility Reform Network (TURN) asked the Commission to consolidate Application 05-03-001 with this proceeding. However, the Core Cap issue raised in the application appears to be sufficiently discreet to be handled at its own pace in a separate docket. We will not consolidate the two proceedings.

**IT IS SO RULED.**

Dated April 21, 2005, at San Francisco, California.

/s/ SUSAN P. KENNEDY

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Susan P. Kennedy  
Assigned Commissioner

/s/ MICHAEL R. PEEVEY

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Michael R. Peevey  
Assigned Commissioner

**CERTIFICATE OF SERVICE**

I certify that I have by electronic mail to those who provided electronic mail addresses, and by U.S. mail to those who did not provide e-mail addresses, this day served a true copy of the original Ruling of the Assigned Commissioners Setting a Revised Schedule for Phase II on all parties of record in this proceeding or their attorneys of record.

Dated April 21, 2005, at San Francisco, California.

/s/ FANNIE SID  
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Fannie Sid

**N O T I C E**

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